

Islamic Banking Profitability in Indonesia: The Varied Impacts of Financing Schemes

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Islamic Banking Profitability in Indonesia: The Varied Impacts of Financing Schemes

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ABSTRACT

The main contribution to the income of Islamic Rural Banks (IRBs) comes from financing provided where there are two financing schemes consisting of profit-sharing financing (*musyarakah* and *mudharabah*) and profit margin financing (*murabahah*). The main purpose of this study is to analyze the financing scheme that affects the bank's profitability. This study will also analyze the effect of Islamic bank performance on profitability. Financial performance that is thought to have an effect on profitability is the capital adequacy ratio (CAR), financing to deposit ratio (FDR), non-performing financing (NPF), operating expense to operating income ratio (OEIR), third-party funds (TPF) and bank size (SIZE). The population in this study were 165 BPRS in Indonesia with a sample of 100 BPRS. Observation period for 4 years (2018-2021) with quarterly data. This study uses a panel data regression analysis to test the hypothesis. After being tested with Chow-test and Hausman-test, the best model from panel data regression was the fixed effect model. The results of the research showed that profit-sharing financing (PSF) and SIZE have a positive and significant effect on profitability while profit margin financing (PMF), CAR and FDR have no effect on profitability. On the other hand, financial performance which has a significant negative effect is NPF, OEIR and TPF, while CAR and FDR has a significant positive effect.

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Introduction

In Indonesia, there are still many poor households and small and medium-sized entrepreneurs who have not been touched by formal banking services, so they use the services of shadow banks that charge high interest rates. Islamic rural banking (IRBs) has a very important role to provide a way out for poor households and micro-entrepreneurs so as not to be trapped in high interest rates. IRBs focus on providing financing to poor households and MSMEs, so that these IRBs become important financial intermediaries in the small economic sector (Widarjono, Anto, & Fakhrunnas, 2020). According to A'yun (2020), the financing provided by IRBs is intended for micro, small and medium enterprises (MSMEs) which are very numerous in Indonesia (Beik, Ayyuniyyah, & Arsyanti, 2014). IRBs in Indonesia have grown quite rapidly since the establishment of Islamic banks was permitted in 1992. To date, there have been 165 IRBs spread across 23 provinces, both operating in rural and urban areas.

In addition to operating in accordance with sharia, IRBs must also be profit-oriented, because for growth and continuity the company needs to earn sufficient profit. The problem of profitability is very important because the owners also have the hope of getting a return on their paid-in capital (Said & Ali, 2016). In order to make a profit, IRBs need to earn income from their operations. The main source of income for Islamic banks is financing, the greater the financing, the greater the earning potential and the greater the potential for profit. There are several financing schemes for IRBs, namely financing based on profit margins, financing based on profit sharing, and financing based on leases (*ijarah*) (Sanmugram & Zahari, 2009). Profit margin financing (PMF) with its products in the form of *murabahah* financing and profit-sharing financing (PSF) with its products being *musyarakah* financing and *mudharabah* financing. The problem that arises is that IRBs provide more profit margin financing (PMF) with less risk than profit sharing financing. Table 1 shows that the average PMF is 80.84% while the PSF is only 19.16% (OJK, 2021). Meanwhile, according to Sudarsono, Afriadi, & Suciningtias (2021), financing that is very compatible with sharia is profit sharing financing. The novelty of this research is to analyze which financing scheme contributes to the profitability.

Table 1: Financing Scheme and Profitability

YEAR	PMF		PSF		TOTAL		ROA (%)
	Rp	%	Rp	%	Rp	%	
2016	5,427,318	81.46	1,235,238	18.54	6,662,556	100.00	2.27
2017	6,123,428	78.87	1,640,523	21.13	7,763,951	100.00	2.55
2018	7,044,096	77.54	2,040,371	22.46	9,084,467	100.00	1.87
2019	8,772,788	86.49	1,370,177	13.51	10,142,965	100.00	2.61
2020	9,268,485	79.85	2,339,129	20.15	11,607,614	100.00	2.01
Average		80.84		19.16			2.26

Source: OJK

The profitability of IRBs is also affected by bank equity as measured by the capital adequacy ratio (CAR), the greater the CAR has the opportunity to be channeled as financing which will increase profits. The Financial Services Authority (FSA) regulates bank capital with a minimum requirement of 8%, so that banks have strong capital, because bank capital serves as a reserve to cover bank losses. Widyakto & Wahyudi (2021) and Kryeziu & Hoxha (2021) found a positive effect of CAR on profitability. On the other hand, Purwasih & Wibowo (2021) and Durguti, Krasniqi, & Krasniqi, (2020) found that CAR had a negative effect on profitability, while Sudarsono, Afriadi, & Suciningtias (2021) actually found CAR and profitability has no effect.

Bank liquidity as measured by the financing to deposit ratio (FDR) is a comparison between the financing provided and third party funds (Schoon, 2016). The higher the FDR, the higher the financing provided by the bank. The higher the financing provided by the bank has the opportunity to increase profits because the main income for IRBs comes from financing. Al-Harbi (2019) and Sudarsono et al., (2021) in their research found a positive and significant effect between FDR and profitability. While Purwasih & Wibowo (2021) actually found a negative effect, while Irwan (2017) found that there was no effect between FDR and profitability.

The risk most feared by banks is credit or financing risk as measured by non-performing financing (NPF). This risk occurs if in the collectability of financing there are many low-quality financing, thereby increasing the NPF (Durguti et al., 2020). The quality of financing is often caused by the poor process of providing financing, which may be due to the existence of financing targets that must be achieved, thereby loosening the financing selection process. Costs arising from NPF will be charged as costs so that high NPF will reduce profitability (Kryeziu & Hoxha, 2021). Thus, the higher the NPF, the lower the profitability. Supriadi, Hasanudin, & Uzliawati, Lia, Haerani (2021); Istiqomaha, Hendratmi, Sukmaningrumb, & Widiastuti (2021); and Lohano & Kashif (2019) found a significant and negative effect between NPF and profitability, but Sutrisno (2018) and Sofyan (2019) found NPF had no effect on bank profitability.

The largest portion of IRB's source of funds comes from customer deposits, both in the form of savings and deposit accounts. These customer deposits are often called third party funds (TPF). The larger the TPF shows the bank's ability to mobilize public funds, and have the opportunity to channel them in the form of financing. Thus, higher TPF can increase profitability (Kryeziu & Hoxha, 2021). However, Said & Ali (2016) found the opposite that TPF had a negative effect on profitability and Hasna et al., (2020) found no effect on TPF on profitability.

The size of the company shows the size of the bank which can be seen from its total assets. In general, company size (SIZE) is able to attract people to become bank customers, because the bigger the bank, the more trusted by the public. The size of the bank is expected to be able to improve the image of the bank and be able to attract many customers so as to increase the profitability of the bank. The results showed that Size had a significant and positive effect on profitability (Petria, Camparu, & Ihnatov, 2015; Istiqomaha et al., 2021; Lohano & Kashif, 2019). Meanwhile, Durguti et al., (2020) found a negative effect, while Al-Harbi (2019), Widarjo (2018), Sutrisno (2018), and Al-Abdallat (2017) found that SIZE had no effect on profitability.

The novelty of this study is to examine the financing scheme that contributes to profitability between profit margin financing (PMF) and profit-sharing financing (PSF), which has not been widely studied. Only Kuswara, Puji Lestari, & Retmaningsih (2019) examined the effect of mudharabah financing, musyarakah financing and mudharabah financing on ROA, while most researchers used financial ratio variables such as FDR, NPF, CAR, OEIR as variables affecting profitability (Sudarsono et al., 2021; Jaouad & Lahsen, 2018; Widarjo & Anto, 2020 and Said & Ali, 2016). The results of this study are very meaningful for the management of Islamic banks in making decisions on financing schemes which so far have been dominated by low-risk PMFs compared to high-risk PSFs.

Theory and Hypothesis Development

The effect of financing schemes on profitability

There are two missions carried out by sharia banking, namely providing banking services for the public that are free of usury and seeking profits so that sharia banking can grow and develop (OJK, 2020). In order for Islamic banks to grow and develop, they must be profit-oriented like conventional banking. In general, bank performance is measured by its ability to generate profits. According to Van Horn & Wachowicz (2013) profitability is measured by return on assets (ROA) and return on equity (ROE). In this study,

profitability is measured by ROA which shows the ability to profit from all assets owned. Ahmed (2015) said that profitability can increase firm value, because profitability is an indicator of company performance

The glorious goal of Islamic banks is to provide riba-free banking services in accordance with Islamic teachings. In addition, Islamic banks are also required to seek profits because most of the funds of Islamic banks come from the public. The people who deposit funds expect proper compensation for the funds they have stored, so that Islamic banks must make a profit. Islamic banks must be profit-oriented so that able to survive, grow and develop (OJK, 2020). Thus, Islamic banks must be able to generate profitability. According to Van Horn & Wachowicz (2013), profitability can be measured by return on assets (ROA), return on equity (ROE), and profit margin (PM). In this study, bank profitability is measured by return on assets (ROA) where this profitability shows the bank's ability to generate profits with all the funds it has. Profitability is a very important performance indicator because profitability can increase company value. High profitability can mean that the company is experiencing growth so that it pays larger dividends (Ahmed, 2015).

In banking, profits are obtained mostly from income in the form of interest income for conventional banks and income from financing for Islamic banks. Thus, for Islamic banks, the main income is the financing provided. There are several financing schemes provided by banks, in this case IRBs, namely 'profit margin financing' with the product name *murabahah*. Murabaha financing is financing where the bank will buy the assets needed by the customer, which then the asset is sold to the customer by adding a profit margin according to the agreement, and 'profit sharing financing' with the product name *mudharabah nan musyarakah*. Mudharabah financing is financing where the bank provides all the funds needed by the customer, while the customer provides the project and its management, while *musyarakah* financing is often referred to as equity financing where the bank provides funds in the form of equity participation and the bank is allowed to participate in management (Schoon, 2016).

Sanmugram & Zahari (2009) divides Islamic bank financing into two types, namely certainty contracts where the amount and time of repaying installments is predetermined, and uncertainty contracts where the amount and time of repaying installments. Certainty contract is financing in which the amount and time of repayment have been determined with certainty in the agreement. This concept is applied to profit margin financing (PMF) with its product *murabahah* financing where the repayment financing is accompanied by an additional profit margin from the principal of the loan. This financing risk is lower because there is certainty in the amount and time of payment. While the uncertainty contract concept is a financing whose amount and time of return is uncertain. The application of this concept to profit-sharing based financing (PSF) with its products is *mudharabah* financing and *musyarakah* financing where the return on financing is accompanied by profit sharing whose amount depends on the profit earned by the customer, so there is no certainty about the amount and time. This type of financing is riskier than PMF financing.

The management of IRBs in applying financing prefers PMFs which have low risk and are easier to process. This can be seen in table 1 above that the portion of PMF is much higher, namely more than 80% on average compared to PSF which averages less than 20%. In conventional banks, the amount of credit provided (loans) has a positive effect on profitability (Wijayanti, 2020). According to Sari, Suhadak, & Kertahadi (2013), loans must be managed and maintained in order to suppress non-performing loans (NPL) which can ultimately increase profitability. The results of research from Kuswara, Puji Lestari, & Retnaningsih (2019) found a significant and positive effect between *murabahah* financing (PML) and *musyarakah* financing (PSF) on profitability, while *mudharabah* financing (PSF) had a negative effect. Thus, the hypotheses proposed based on theoretical studies and previous research findings are:

H₁: PMF has a positive effect on profitability (ROA)

H₂: PSF has a positive effect on profitability (ROA)

Capital and profitability

Capital for banks is a very important issue, so the government through the Financial Services Authority (OJK) determines a minimum bank capital limit of 8%. Bank capital is measured by the capital adequacy ratio (CAR), which is the ratio between total bank equity and risk-weighted assets (Schoon, 2016). Bank capital besides functioning as a reserve to cover bank losses, if there is excess capital it can be used to provide financing, so that it has the opportunity to increase profits. The results of research on Islamic banks from previous researchers show that CAR has a positive effect on profitability (Supriadi et al., 2021; Javaid & Alalawi, 2018; and Hossain & Khalid, 2018). Likewise in conventional banks that CAR has a positive effect on profitability (Durguti et al., 2020; Oleiwi et al., 2019; and Lohano & Kashif, 2019). Thus, the formulation of the hypothesis is:

H₃: CAR has a positive effect on profitability (ROA)

Liquidity risk and profitability

Handling the liquidity problems of conventional banks is easier because the liquidity instruments are well-established, while the liquidity problems of Islamic banks are more complicated because the liquidity instruments of Islamic banks are more limited (Islam, Farooq, & Ahmad, 2017). Bank liquidity relates to the provision of funds as a reserve if customers withdraw funds at any time. Liquidity is also related to the bank's commitment to providing funds for financing. The liquidity of Islamic banks is proxied by the financing to deposit ratio (FDR), which is the ratio between the total financing provided and third-party funds. The high FDR shows the greater the financing, and the higher the financing will be able to increase profits, because Islamic banks gain the most from financing. The results of research from (Sudarsono et al., 2021; Purwasih & Wibowo, 2021; and Widarjono, 2018) who conducted research on Islamic banks found a positive effect between FDR and profitability. Conventional banks also found a positive effect between liquidity risk and profitability (Koroleva, Jigeer, Miao, & Skhvediani, 2021; and Sofyan, 2019). The formulation of the hypothesis proposed is:

H4: FDR has a positive effect on profitability (ROA)

Financing risk and profitability

In conventional banks the main income comes from the interest that is obtained from the loans provided, in Islamic banks the main income comes from the financing provided. Opportunities to earn greater profits with greater financing provided. According to (Schoon, 2016), if the financing does not use the prudential principle it is possible to be exposed to financing risks called non-performing financing.

Financing risk is called **non-performing financing (NPF)** which is calculated by comparing **non-performing financing** with total financing. NPF will be reserved as operating costs, so the higher the NPF, the higher the reserve for these costs, which of course will reduce profitability. Therefore, bank management is required to manage financing in order to reduce the NPF figure which is determined by the Financial Services Authority (FSA) to a maximum of 5%. Studies on Islamic banks show a negative influence between NPF and profitability (Purwasih & Wibowo, 2021; Widarjono, 2018; and Said & Ali, 2016). The results of research on conventional banks also found a negative effect of NPL on profitability (Koroleva, Jigeer, Miao, & Skhvediani, 2021; Durguti et al., 2020; and Lohano & Kashif, 2019). Thus, the formulation of the hypothesis is:

H5: NPF has a negative effect on profitability (ROA)

Efficiency and profitability

Islamic bank management is required to be able to manage the bank **efficiently**, so that unwanted waste does not occur. Bank efficiency will determine bank profitability, because bank efficiency is **measured by operating expense to operating income ratio (OEIR)**, namely **the** ratio between operating costs and operating income, so that if OEIR is high, it indicates that the bank is increasingly inefficient, because operating costs are high (Hossain & Khalid, 2018). Bank management must be able to reduce operating costs so that banks are able to increase their profitability (Widyakto & Wahyudi, 2021). Javaid & Alalawi (2018; Al-Harbi (2019; Istan & Fahlevi (2020, and Setiawan (2021) found a negative effect between OEIR on profitability. Thus, the hypothesis proposed is:

H6: OEIR has a negative effect on profitability (ROA)

Third party funds and profitability

The function of the bank is a financial intermediary between people who have excess funds (surplus units) and people who need funds (deficit units). Banks must be able to mobilize funds from the public which will later be distributed to customers who need financing (Widodo & Asas, 2017). Most banking assets come from customers, so the higher the TPF, the greater the public funds. With the increasing size of public funds, management has the opportunity to channel them in the form of financing, so that if the quality of financing is good, it will be able to increase profits. In accordance with the results of research from Kryeziu & Hoxha (2021) that TPF has a positive effect on profitability. Thus, the formulation of the hypothesis can be made as follows:

H7: TPF has a positive effect on profitability (ROA)

Bank size and profitability

One of the public considerations in choosing a bank is bank size which is often measured by the bank's total assets (Lohano & Kashif, 2019; Petria et al., 2015; Javaid & Alalawi, 2018). The greater the bank's assets, the more opportunities it has to develop by diversifying its financing portfolio so as to generate high levels of profit. The large size of the bank will make it easier to mobilize public funds and distribute them in the form of financing (Sudarsono et al., 2021). Banks are required to manage their assets effectively and efficiently so as to increase their profitability. The results of research from Jaouad & Lahsen (2018) show that bank size has a significant and positive effect on profitability. According to (Lohano & Kashif, 2019), this positive effect is possible because banks have a higher chance of providing financing with the precautionary principle. So, the hypothesis is:

H8: SIZE has a positive effect on profitability (ROA)

Research Method

The sample of this study was 100 IRBs from a population of 165 IRBs which were taken by purposive sampling technique. The data source is obtained from the Financial Services Authority (FSA) website, with an observation period of four years (2017 – 2020), and data is collected quarterly, so that 1,600 observational data were obtained. This study uses panel data regression analysis. Definitely the variables used in this study are profitability (ROA), profit margin financing (PMF), profit sharing financing (PSF), capital (CAR), liquidity risk (FDR), financing risk (NPF), operating efficiency (OEIR), third party funds (TPF) and company size (SIZE). The measurement of research variables can be explained in table 2 below:

Table 2: Variables and Measurement

Variables	Symbol	Measurement
Return on Assets	ROA	EAT/Total Assets
Profit Sharing Financing	PSF	Ln (musyarakah+mudharabah financing)
Profit Margin Financing	PMF	Ln murabahah financing
Capital Adequacy Ratio	CAR	Equity/Assets weighted risk
Financing to Deposit Ratio	FDR	Total financing/Third party fund
Non-Performing Financing	NPF	Non-performing financing/Total financing
Operating Expense to Income Ratio	OEIR	Operating expense/operating income
Third Party Fund	TPF	Ln Third Party Fund
Bank Size	SIZE	Ln Total Assets

The research data is in the form of panel data, which is a combination of time series data and cross section data, so that to test the hypothesis, panel data regression analysis will be used. There are three choices of panel data regression models, which consist of a common effect model, a fixed effect model, and a random effect model.

$$ROA_{it} = \alpha + \beta_1 PMF_{it} + \beta_2 PSF_{it} + \beta_3 CAR_{it} + \beta_4 FDR_{it} + \beta_5 NPF_{it} + \beta_6 OEIR_{it} + \beta_7 TPF_{it} + \beta_8 SIZE_{it} + \epsilon_{it}$$

Results and Discussion

Descriptive statistics

Table 3 below shows an overview of research data obtained from 100 IRBs with quarterly data for 4 years (2018-2021), so that 1,600 observation data were collected.

Table 3: Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
ROA (%)	1600	-52.200	109.200	1.878	658.972
PMF (Ln)	1600	5.020	13.850	10.095	107.796
PSF (Ln)	1600	0.000	12.220	6.700	336.195
CAR (%)	1600	8.500	149.500	25.931	1.789.382
FDR (%)	1600	11.180	321.150	91.065	2.764.820
NPF (%)	1600	0.230	75.560	10.107	860.816
OEIR (%)	1600	43.410	286.350	83.561	3.518.667
TPF (Ln)	1600	5.170	13.510	10.306	1.15851
SIZE (Ln)	1600	5.380	15.150	10.817	1.13552
Valid N (listwise)	1600				

Source: Data processed

The results of descriptive statistics in table 3 above show that the profitability variable has a maximum value of 109.2% and a minimum of -52.2% with an average of 1.88%. These results indicate that there are IRBs who experience very large losses, but there are also very large profits. From financing, there is profit sharing financing (PSF) with a minimum value of 0.00%, meaning that there are IRBs that do not provide PSF because the risk of this financing is very high. Capital has a minimum value of 8.5% and a maximum of 149.5% with an average of 25.93%, meaning that the CAR of all IRBs is above the minimum FSA requirement of 8%, but there is a very large capital of 149.5% which indicates that the IRB cannot channel into financing so that assets weighted according to very low risk.

The FDR variable has a minimum value of 11.18% and a maximum of 321.15% with an average of 91.06%, meaning that there are IRBs whose financing is very small and some are very large, but the average is very good, according to the range set by the government of 85%-110%. While the NPF has a minimum value of 0.23%, which is very good, but the maximum is 75.56%, indicating that there are IRBs whose financing problems are very high. The average NPF of 10.11% shows that on average IRBs have a very poor performance, because the NPF is above the OJK regulation, which is a maximum of 5%. While efficient bank (OEIR) has a minimum value of 43.41% and a maximum of 286.35% with an average of 83.56%.

Test of Regression Model

To choose the best model between the common effect model (CEM), Fixed effect model (FEM) or Random effect model (REM), it is necessary to conduct a model test with the first stage testing the best model between CEM and FEM using the Chow-test, provided that the probability value is < compared to 0.05, then the selected model is FEM and if prob 0.05, the selected model is CEM. The results of the Chow-test in table 4 show prob < 0.05, then the model chosen is FEM. The second stage is looking for the best model between FEM and REM. If prob < 0.05, then FEM is selected and if prob 0.05 the selected model is REM. Table 4 shows that the Husman-test resulted in prob < 0.05, so the model chosen was FEM. The Lagrange Multiplier (LM) test was not carried out because the two tests above have produced the best FEM model.

Table 4: The result of Chow-test and Hausman-test

Type of test	Summary			Best Model
Chow-test	Statistic	d.f	Prob	Fixed Effect
	866.890.002	99	0.0000	
Hausman-test	Chis-Sq-statistic	Chi-Sq d.f	Prob	Fixed Effect
	66.171521	8	0.0000	

Source: Data processed

Hypothesis test result

Based on table 5, the adjusted R square value is 0.840271 or 84.03%, this means that the contribution of all independent variables PMF, PSF, CAR, FDR, NPF, OEIR, TPF and SIZE in forming this model is 84.03%, while the other 15.97% are contributions of other variables not examined in this study. While the results of the F test which is a simultaneous test produces a significance value of 0.000, meaning that the independent variable simultaneously has a significant effect on the profitability variable.

Table 5: Regression Result of CEM, FEM and REM

Variable	Common Effect Model		Fixed Effect Model		Random Effect Model	
	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.
C	3.839.904	0.5823	5.493.228	0.5823	2.000.885	0.9709
PMF	0.038788	0.4747	0.154626	0.4747	-0.145744	0.7086
PSF	-0.042570	0.0002	0.003946	0.0002	-0.179722	0.0003
CAR	0.011313	0.0006	0.007385	0.1368	0.041803	0.0042
FDR	0.002814	0.0004	0.001956	0.8744	0.003179	0.0000
NPF	-0.076155	0.0000	-0.060837	0.0000	-0.132226	0.0000
OEIR	-0.047029	0.0000	-0.034985	0.0000	-0.036761	0.0000
TPF	-0.371883	0.0001	-0.520047	0.0155	-1.524.453	0.0007
SIZE	0.535237	0.0003	0.340705	0.0530	2.016.905	0.0187
R-squared	0.424192		0.840271		0.521237	
Adjusted R-squared	0.420736		0.827539		0.487245	
F-statistic	1.227.509		6.599.661		1.533.444	
Prob(F-statistic)	0.000000		0.000000		0.000000	

Independent Variable: ROA

Source: Data processed

Table 5 above shows the results of the regression of the influence of the independent variable on the dependent variable with three models to compare the results of hypothesis testing. However, because the model test with both the Chow-test and Hausman-test resulted in the best FEM, the discussion that follows will use FEM. To find out the hypothesis is accepted or rejected by comparing the results of the significance value of each independent variable using a reference level of significance of 0.05 or 5%.

The results of hypothesis testing the effect of financing schemes on profitability show that the PMF scheme produces a significance value (prob) of 0.4747 which is greater than 0.05 so that PMF has no effect on profitability. While the PSF significance value of 0.0002 is smaller than 0.05, so that PSF has a significant positive effect on profitability. This finding is very interesting to analyze, because Islamic banking is more likely to provide financing in a low-risk PMF scheme compared to PSF. However, the results of this study actually found that PMF did not significantly increase profitability, while the PSF scheme which was not given much as financing actually had a positive effect on profitability, which means that an increase in PSF would increase profitability. Kuswara

et al., (2019) also found that the PSF scheme in the form of equity financing had a significant effect on profitability, but the PSF scheme for mudharabah financing products had a negative effect on profitability. The findings of this study that PMF has no effect on profitability, contradict the research conducted by Kuswara et al., (2019) which found that the PSF scheme with mudharabah products had a negative effect on profitability. Research results from Roziq & Sukarno (2021) show that PSF and PMF actually have a negative effect on profitability, thus contradicting the findings of this study. What needs attention in the findings of this study is that PMF has no effect on profitability while PSF has a positive effect. The PMF scheme, which is low risk and easy to transact, does not guarantee an increase in profits. In fact, the high-risk PSF scheme is able to increase profitability. This is in accordance with the principle of risk and return. This means that if the risk is high, you will get a high return.

The third hypothesis test results in a CAR significance value of 0.1368 which is greater than 0.05, so it is concluded that CAR has no effect on profitability, meaning that the size of the CAR will not affect the size of profitability. This result is possibly due to poor capital management. This is indicated by the CAR which is too large, namely 25.93% (see table 3). A very high CAR indicates that there are many unemployed capital funds because management cannot utilize a portion of the capital to be channeled as financing. Sudarsono, Afriadi, & Suciningtias (2021) in their research also found that CAR had no effect. According to Setiawan (2021); Durguti et al., (2020); Irwan (2017); and Said & Ali (2016) a high CAR indicates a bank is inefficient in managing purchases so that it has a negative effect on profitability. These results indicate that capital is managed less effectively as seen from the average CAR of 25.93%. The high CAR indicates that the bank's management is unable to use its capital for financing. Sudarsono, Afriadi, & Suciningtias (2021) found CAR to have no effect, while Setiawan (2021); Durguti et al., (2020); Irwan (2017); and Said & Ali (2016) found CAR that was too high actually reduced profitability.

Liquidity risk as measured by FDR produces a significance value of 0.8744 which is greater than 0.05, meaning that FDR has no effect on profitability. Thus the rise and fall of FDR will not affect the magnitude of profitability. This result is possible, even though the FDR is high, but if the financing management is not good which results in a high NPF, then the high FDR will have no meaning in increasing profitability. From table 3 it can be seen that the NPF is too high, so that although the FDR is already high, it is not able to increase profitability. These results are in accordance with the findings of (Irwan, 2017; Setiawan, 2021; Javaid & Alalawi, 2018; and Said & Ali, 2016). A high FDR is also possible to reduce profitability if the NPF is still too high (Purwasih & Wibowo, 2021).

Financing risk (NPF) produces a significance value of 0.000 <0.05 with a negative coefficient, meaning that NPF has a negative effect on profitability. If the NPF increases, then profitability will decrease. This result is in accordance with the hypothesis that NPF has a negative effect on profitability. The NPF shows the amount of non-performing financing, which will later be calculated as costs and of course will reduce profits. NPF for banks needs serious attention because it is directly related to bank income. In IRBs the average NPF is 10.11% (table 3), far above the maximum limit of 5%. This shows that the financing management of IRBs is not good, which results in a lot of financing problems. Most likely because the NPF is too large which causes high FDR but is not able to increase profitability. These results are in accordance with the results of research from Supriadi et al., (2021), Istiqomaha et al., (2021), dan Lohano & Kashif (2019) which found a significant and negative effect between NPF and profitability.

The level of bank efficiency (OEIR) produces a significance value of 0.000 <0.05 with a negative coefficient meaning that OEIR has a significant and negative effect on profitability. OEIR is the ratio of operating costs to operating income, so the higher the OEIR the greater the bank's operational inefficiency, which in turn will reduce bank profits, because profits are derived from bank operating income minus bank operating costs. Therefore, bank management is required to be able to perform efficiency by reducing OEIR. The results of research from Javaid & Alalawi (2018), Istan & Fahlevi (2020), and Setiawan (2021) found a negative effect between NPF and profitability. Research on conventional banks also found negative NPL on profitability (Al-Harbi, 2019; Durguti et al., 2020; Sofyan, 2019; dan Lohano & Kashif, 2019).

Third party funds (TPF) yield a significance value of 0.0155 < 0.05 with a negative coefficient. Thus, TPF has a significant and negative effect on profitability, meaning that if TPF increases, it will decrease profitability. This result is not in accordance with the hypothesis which states that TPF has a positive effect on profitability. If bank management can utilize third party funds effectively and efficiently, it has the opportunity to be channeled as financing so as to increase profitability (Saady, Pradiani, & Handoko, 2020). This result contradicts with Kryeziu & Hoxha (2021) and Sugianto, Juliati Nst, & Siregar (2021) who found a positive effect of TPF on profitability. However, the results of this study support the findings of Said & Ali (2016) which found a negative effect of TPF on profitability. Meanwhile (Hasna et al., 2020) found that TPF had no effect on profitability.

Firm size (SIZE) produces a significance value of 0.0530 which is greater than 0.05, but if using a significance level of 0.10, the result is that SIZE has a positive effect on profitability. These results indicate that Islamic banks with high assets are able to generate higher profitability. This result is understandable because larger banks have greater potential to generate income (Sudarsono et al., 2021). Large banks are more trusted by the public both in saving funds and borrowing funds, so that bank management can take advantage of these opportunities to increase profitability. Several research results also found that bank size has a positive effect on profitability (Petria et al., 2015; Istiqomaha et al., 2021; and Lohano & Kashif, 2019).

Conclusions, Implications and Limitations

Based on the results of hypothesis testing where the main purpose of the study is to find scientific answers which financing schemes have an influence on profitability. Based on the results of the hypothesis test, it is found that the most interesting finding is that the most common financing scheme provided by IRBs, namely profit margin financing (PMF) has no effect on profitability, while profit-sharing financing with high risk actually has a positive and significant effect on profitability. The results of this study indicate that high-risk financing will provide high returns. Another finding is that CAR and FDR are not proven to have an effect on profitability,

while TPF has an effect, but the effect is negative, which is not in accordance with the proposed hypothesis. Meanwhile, the results of NPF and OEIR are in accordance with the hypothesis, which have a significant and negative effect. Likewise with SIZE, the results are in accordance with the hypothesis which has a positive effect on profitability at a significance level of 10%.

The results of this study are expected to be used by the management of IRBs in managing their banks in order to increase their profitability. IRBS management should not be trapped by a low-risk financing scheme (PMF), because the financing is not able to increase profitability. Bank management must begin to dare to enlarge the profit-sharing financing scheme (PSF) which can positively affect profitability. The management of IRBs must be willing to take risks by providing financing for the PSF scenario, because the magnitude of the risk will increase the profits. The second problem faced by IRBs is that the NPF number is very high and even exceeds the maximum limit (5%). This high NPF resulted in large financing (FDR) and capital (CAR) being unable to increase profitability. To overcome this high NPF, the process of providing financing must be strict with an assessment process according to the precautionary principle, collateral must be sufficient, and it is necessary to look at the customer's payment history (Odonkor, 2018). IRBs are banks that serve MSMEs and the poor more so that IRBs make financial inclusion institutions that are needed by the community (Bannerman & Fu, 2018). In this study, there are weaknesses, including not including external variables such as interest rates, inflation, gross domestic product which also have an effect, so that further researchers can complete this research.

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